



SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 200106732C)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S ANNOUNCEMENT ON THE FURTHER UPDATE ON THE ACQUISITION OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF PT PANGHEGAR ENERGY INDONESIA - ENTRY INTO DEED OF SETTLEMENT AND SHARE TRANSFER IN RELATION TO THE EXERCISE OF THE REVERSAL OPTION

1. INTRODUCTION

The Board of Directors (the "Directors" or the "Board") of Darco Water Technologies Limited (the "Company" and together with its subsidiaries, collectively, the "Group") refers to the Company's update announcement on the entry into deed of settlement and share transfer in relation to the exercise of the reversal option relates to the acquisition of total issued and paid-up share capital of PT Panghegar Energy Indonesia ("PEI") released on the SGXNET on 26 November 2020 (the "Update Announcement").

Unless otherwise defined herein, capitalised terms shall have the meaning ascribed to them in the Update Announcement.

2. RESPONSE TO SGX QUERIES

The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 2 December 2020 (the "SGX Queries" and each, a "SGX Query") as follows:

SGX Query (1)

Please provide the Audit Committee's assessment as to whether the terms of the deed of settlement is in the interest of the Company, including its bases of assessment.

Company's response to SGX Query (1):

Based on the information provided and representations made by the Management, the Audit Committee has assessed that it would be in the interest of the Company to enter into the Deed of Settlement with Emsus Co. Ltd. ("Emsus") and Dr Do Yun Yu ("Dr Yu") after taking into consideration the following factors:

- (a) The Audit Committee understands from the Management that Dr Yu, as the controlling shareholder of Emsus, has indicated that Emsus is currently not in a position to pay the Settlement Amount in full and any time soon, particularly, without first disposing of a significant portion of its interest in the PEI Group. As such, Dr Yu has requested for the Company's indulgence to allow him time to pay the Settlement Amount; hence, the request to pay the Settlement Amount in three tranches with the first tranche of US\$500,000 to be paid no later than the completion of the transfer of the Sale Shares to the order of Emsus and subsequent two tranches of US\$500,000 and US\$313,000 over a period of not more than two years. The Audit Committee notes that the Company will not release and transfer the Sale Shares unless and until the first tranche of US\$500,000 is paid. This helps to ensure that a significant sum constituting approximately 38% of the Settlement Amount is paid upfront before the Company relinquishes control of the Sale Shares.



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- (b) The Audit Committee notes that the obligation of paying the Settlement Amount under the Reversal Option is legally imposed on Emsus and not on Dr Yu personally. However, as an act of good faith and show of commitment to ensure the payment of the second and third tranche of the Settlement Amount, Dr Yu has given his irrevocable and unconditional personal guarantee and indemnity to pay to the Company on demand and unconditionally, among others, any sum due and payable by Emsus and/or himself under or in respect of the Deed of Settlement or any part thereof outstanding for the time being and all other liabilities which shall become due and payable by Emsus to the Company. Further details of the aforesaid personal guarantee and indemnity can be found in paragraph 3.4 of the Update Announcement.
- (c) The Audit Committee further notes that apart from and save with the entry into the Deed of Settlement, the Company's only recourse would have been to institute formal legal proceedings against Emsus, an entity incorporated and domiciled in South Korea, without the benefit of a back-stop assurance from Dr Yu in the event that Emsus is not in a position or does not have sufficient resources to pay the Settlement Amount.

SGX Query (2)

Please advise as to how the Audit Committee is satisfied that Emsus and/or Mr Do Yun Yu would be able to honour their obligations under the deed of settlement. Please provide information on the financial due diligence performed by the Company on Emsus and/or Mr Do Yun Yu, where applicable.

Company's response to SGX Query (2):

The Audit Committee has been informed by the Management as follows:

Dr Yu Do Yun has a Ph.D. in Civil Engineering from Hanyang University (Korea); he was also a Post Doctorate Research associate in Purdue University (USA). Dr Yu is the Founder/President of Emsus Co. Ltd ("**EMSUS**") which is a professional consulting services firm providing expertise in Environmental, Health and Safety (EHS) and Energy. Emsus provided services for projects in Environmental Compliance Audit & Environmental Site Assessment, Contaminated Site Management, Waste-to-Energy & Waste Reutilization, Energy Audit & Greenhouse Reduction. Emsus has over 11 years of operating history and had delivered on more than 50 projects across Korea and South-East Asia; to name a few:

- i. Phase I ESA at 4 copper products plants, Mueller Industries
- ii. Phase I ESA & limited Environmental Compliance Audit at a GLS plant in Ulsan, CH2M HILL
- iii. PQ Document Review for KOC Soil Remediation Project
- iv. Market study on the anti-clinkering biomass boiler in South-East Asian countries, Eco Front
- v. Development of business strategy on waste sorting and landfill reclamation technologies for advancing into foreign markets, Korea Environmental Industry & Technology Institute
- vi. Energy audit at a home electrical appliance factory, Thai Samsung Electronics, Thailand
- vii. Feasibility study on torrefied pellet production using palm wastes in Indonesia, H&M

Whilst no formal financial due diligence has been performed by the Company, in light of the above, the Audit Committee is reasonably confident that Dr Yu would be able to honour or procure Emsus to honour the payment obligations under the Deed of Settlement in the absence of unforeseen circumstances.

SGX Query (3)

The announcement states that, "Based on the book value of the Sale Shares as set out above, the Settlement Amount represents an excess of approximately S\$2,395,174 over the book value of the Sale



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Shares, and the estimated net gain on disposal of the Sale Shares is approximately S\$27,000." Please provide the detailed computations of (i) the excess of Settlement Amount over the book value and (ii) the net gain on disposal. Please reconcile the excess of Settlement Amount over the book value and the net gain on disposal.

Company's response to SGX Query (3):

(i) the excess of Settlement Amount over the book value

	S\$
Settlement Amount (US\$1,313,000)	1,763,150
Add: -	
Net liabilities value of PEI Group	632,024
	2,395,174

(ii) the net gain on disposal.

	S\$'000
Excess of Settlement Amount over the book value	2,395
Add/(Less): -	
Derecognition of Goodwill	(2,535)
Carrying amount of non-controlling interest	(85)
Waiver of final payment (US\$200,000)	269
Waiver of loan to Emsus	(17)
Gain on disposal of PEI Group	27

SGX Query (4)

Please clarify the carrying value of the 6,000 shares in PEI.

Company's response to SGX Query (4):

Investment in 6,000 shares of PEI has been recorded in the Company's books as investment in subsidiary. The carrying value of the investment remains at S\$2,053,000 (US\$1,500,000).

SGX Query (5)

Please provide brief information on Mr Do Yun Yu and his relationship with Emsus.

Company's response to SGX Query (5):

Dr Yu is the controlling shareholder of Emsus.

Dr Yu's background is as set out in the Company's response to SGX Query (2) above.

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and Chief Executive Officer

7 December 2020